ESG Digest #8

February 2023

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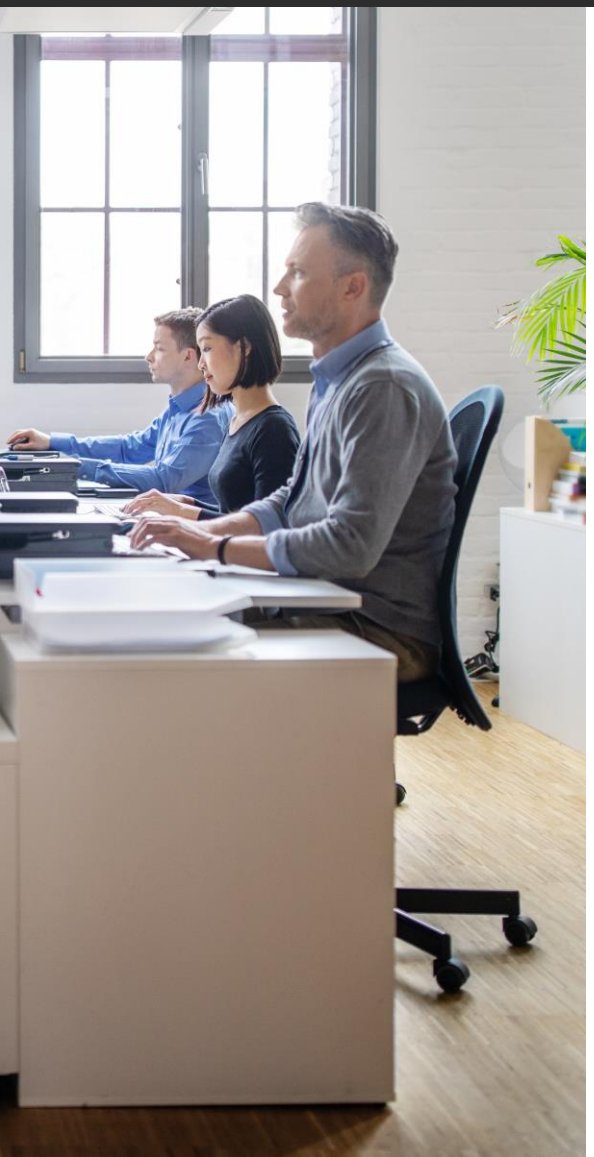
Climate Inequality Report 2023: fair taxes for a sustainable future in the global South



The objective of Climate Inequality Report 2023, published by the economists from the World Inequality Lab, was to decode the magnitude of climate inequality focusing on low- and middle-income countries.

The report indicates that:

- Differences in climate gas emissions are extraordinarily high, not only between countries but to an even higher degree within each nation.
- The poorest half of the world's population owns only two percent of the world's wealth, are responsible for only 12 percent of emissions, but suffer 75 percent of losses.
- The wealthiest 10 percent are responsible for 48 percent of emissions, but incur only three percent of losses.

The report also makes recommendations for a series of major initiatives, especially tax-related, suggesting tax solutions for a sustainable future in the countries of the global South. In addition, the report argues for intensifying international climate financing.

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EU launches Green Deal Industrial Plan

The European Commission announced the launch of its Green Deal Industrial Plan, a series of strategies and initiatives aimed at enhancing the competitiveness of the Europe's net zero industries, and supporting the EU's transition to climate neutrality.

The plan focuses on key areas including:

- creating a simpler regulatory framework to facilitate net zero industries;
- upskilling the European workforce for the green transition;
- accelerating access to investment and financing for clean tech production in Europe;
- enhancing global trade cooperation for cleantech and raw materials.

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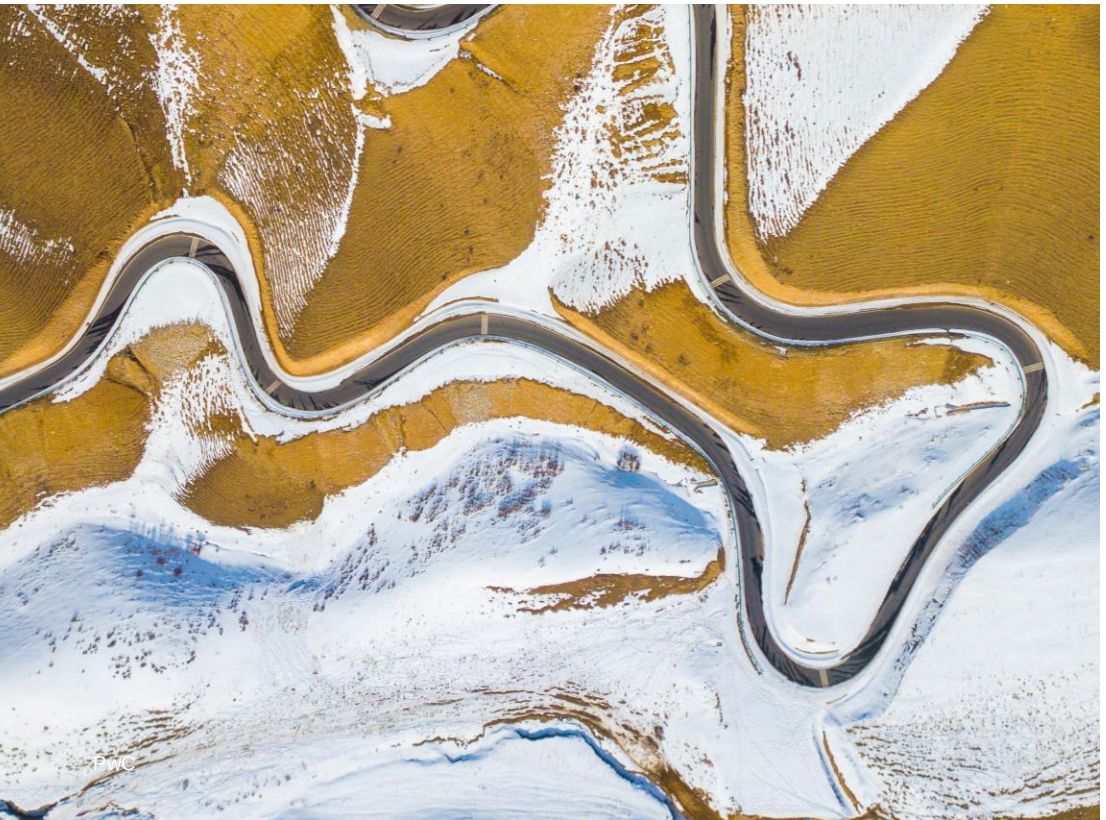
The medium-term goal of the Strategy is to reduce greenhouse gas (GHG) emissions by 2030 by **15%**

Subject to the international support, the GHG emissions could be reduced further by **10%**



Kazakhstan approves Carbon Neutrality Strategy

The President of Kazakhstan by his decree approved the Strategy for achieving carbon neutrality of the country by 2060.

The medium-term goal of the Strategy (in accordance with the nationally determined contribution) is to reduce greenhouse gas (GHG) emissions by 15% by 2030, on a 1990 basis. Subject to the international support, the GHG emissions could be reduced further by 10%.

The development of RES will be the key for successful decarbonization. The wind, given its quality and availability in the country, is expected to become the main resource in the earlier stages, while solar energy will become a key technology at a later stage, when the cost of investment in solar power plants will noticeably decrease.

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SEC to examine investment advisors, funds on ESG investing practices

The U.S. Securities and Exchange Commission (SEC) announced that ESG investing will be a priority area of focus for its Division of Examinations in 2023, guiding its monitoring and focused examinations of market participants including investment advisers and investment companies for the year.

Outlining the nature of the risks in this year's "Examination Priorities" publication, the division noted that the focus on ESG investing comes as investment advisers and funds are competing for the rising investor demand for ESG-related investments and strategies, and are increasingly offering products employing these strategies and investments.

According to the division, the examinations will focus on ESG-related advisory services and fund offerings, assessing whether the funds are operating as described in their disclosures. The exams will also assess whether ESG products are appropriately labeled and whether recommendations of ESG products for retail investors are made in the investors' best interests.

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Less than 1% of companies have presented credible climate transition plans: CDP

CDP, the world's environmental disclosure platform, released a report analyzing disclosure from 18,600+ companies across 13 industries in 135 countries. The report assessed climate transition plan disclosure against CDP's 21 key climate change indicators.

So, CDP found that even though more than 4000 companies had a climate transition plan, only 81 (0.4%) demonstrated best practice by disclosing against all 21 key indicators that denote a credible climate transition plan. However, 2,300 (13%) companies disclosed to many (14-20) of the key indicators demonstrating that they are on their way to disclosing a credible climate transition plan.

Examples of key indicators that make up a credible climate transition plan include board-level oversight, scenario analysis, financial planning, and policy engagement.

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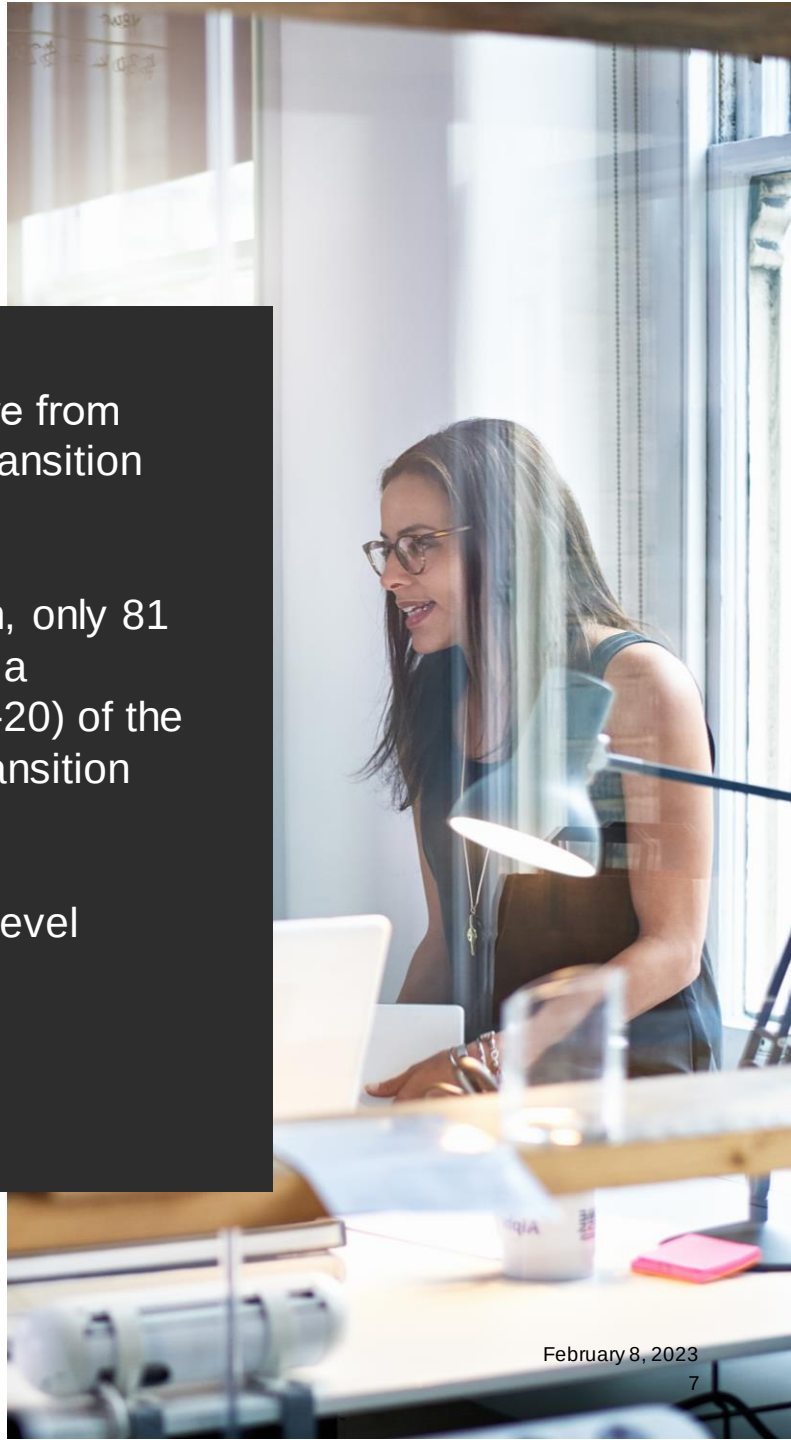

EU sets renewable hydrogen rules

The European Commission proposed detailed rules defining renewable hydrogen. Two delegated acts required under the Renewable Energy Directive were adopted for this purpose.

In particular, the first Delegated Act defines when hydrogen, hydrogen-based fuels or other energy carriers can be considered as a renewable fuel of non-biological origin, or RFNBO. The rules are to ensure that these fuels can only be produced from “additional” renewable electricity generated at the same time and in the same area as their own production.

The second Delegated Act sets the methodology to calculate GHG emissions savings from RFNBOs and recycled carbon fuels. The methodology takes into account the full lifecycle of the fuels to calculate the emissions and the associated savings. It also establishes that the greenhouse gas emissions savings from the use of recycled carbon fuels shall be at least 70%, compared to the fuels they are replacing.

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France bans fossil fuels from Article 9 funds

The French Financial Market Authority (Autorité des marchés financiers, AMF) has issued an extensive proposal for minimum environmental criteria for financial products in the sustainable finance disclosure regulation (SFDR). AMF proposes the following:

- For Article 9 funds (funds that have a sustainable investment objective) - to exclude all activities related to fossil infrastructure, with the exception of a very small number of gas power plants and transport infrastructure.

- For Article 8 funds (funds that promote ESG) - fossil fuel companies could be included provided they have a “convincing transition plan”, which should be accompanied by a plan to close down fossil fuel assets.

The AMF also recommends that detailed information on the commitment made at the fund level be published.

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Corporate net zero pledges only add up to 36% emissions reduction: CCRM Report

The climate plans of most major corporations fall well short of their “net zero” claims, according to the 2023 Corporate Climate Responsibility Monitor (CCRM), a new report by climate-focused non-profits NewClimate Institute and Carbon Market Watch.

For the report, the organization examined the emissions reductions pledges and plans of 24 global companies across eight high-emitting sectors, selected as the largest three companies in each of the sectors. Each of the companies has made a ‘net zero’ or ‘carbon neutral’ or similar pledge, with target dates typically between 2040 and 2050.

The study found that the only half of the companies’ climate pledges commit to explicit emissions reduction targets, and that collectively, the commitments would only translate to a 36% reduction in the companies’ combined greenhouse gas (GHG) emissions footprint by the long-term target years.

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EU proposes new 2030 zero-emissions targets for new heavy-duty vehicles

The European Commission announced a series of new carbon emissions reduction targets for new heavy duty vehicles, such as trucks, buses and trailers.

In particular, the Commission proposes phasing in stronger CO2 emissions standards for almost all new HDVs with certified CO2 emissions, compared to 2019 levels, specifically:

- 45% emissions reductions from 2030;
- 65% emission reductions from 2035;
- 90% emissions reduction from 2040.

In addition, all new city buses to be zero-emission from 2030.

The aim is to align the transport sector with the European Union's goal to achieve zero net greenhouse gas emissions by 2050, as well as to reduce demand for imported fossil fuels.

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China has launched a national wind and solar resources climate prediction model to enable provincial authorities to forecast energy demand and supply.

The model will provide data and graphic predictions on major variables in renewable energy supply, such as wind speed and solar radiation, as well as demand-side data such as average local temperature. All information will be released monthly.

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China launches Climate Prediction Model for wind and solar power

IFRS Sustainability and Climate Reporting Standards to take effect in 2024

IFRS S1 General Requirements for Disclosure and Exposure and IFRS S2 Climate-related Disclosures will come into effect in January 2024. Following the ISSB's decision, all entities will be required to file reports under the two standards for annual reporting periods beginning on or after 1 January 2024. Early application of IFRS S1 and IFRS S2 is also permitted, but only if an entity applies both standards at the same time.

The ISSB also voted to include a reference to the GRI standards and the European Sustainability Reporting Standards (ESRS) as sources of guidance for companies to be allowed to consider in the application of the IFRS S1, in the absence of a specific ISSB standard.

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Spain plans to introduce cabinet gender equality law

Spain’s prime minister plans to bring in a gender quota at the highest levels of government through a law requiring that each sex holds at least 40 per cent of cabinet roles.

The law, which must be voted on by parliament after cabinet approval, will also require “an equal number of women and men” on the candidate lists of political parties for national, regional, municipal and European elections.

This move will make the country one of the first in Europe with a legally binding cabinet quota and forms part of a broader package of gender equality measures.

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